

Message Text

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ACTION EUR-12

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E.O. 11652: NA
TAGS: ENRG, CA
SUBJ: IMPERIAL BIDS FOR MAJOR NEW OIL SANDS COMPLEX

1. IMPERIAL OIL LTD. HAS FILED AN APPLICATION WITH THE ALBERTA ENERGY RESOURCES CONSERVATION BOARD REQUESTING APPROVAL FOR A DOLS 4 BILLION OIL SANDS COMPLEX AT COLD LAKE, ALBERTA. THE PROJECT INVOLVES CONSTRUCTION OF A BITUMEN PROCESSING PLANT, AN UPGRADING FACILITY, AND A STEAM GENERATION WORKS, AND DEVELOPMENT ANNUALLY OF 10,000 ACRES OF UNDERGROUND HEAVY OIL DEPOSITS. IMPERIAL WOULD USE AN IN-SITU TECHNOLOGY (HIGH PRESSURE STEAM) AND SOME 1800 WELLS TO RECOVER 160,000 B/D OF BITUMEN FROM OIL SAND DEPOSITS 1500 FEET BELOW THE SURFACE. THIS OPERATION WOULD PERMIT DAILY PRODUCTION OF FROM 120,000 TO 145,000 B/D OF SYNTHETIC CRUDE. THE HIGHER FIGURE COULD BE REALIZED IF THERMAL COAL WERE USED TO GENERATE STEAM IN LIEU OF RAW BITUMEN AND THE NATURAL GAS RECOVERED AS A BY PRODUCT OF STEAM INJECTION. IF GOVERNMENT APPROVALS AND FAVORABLE TAX AND ROYALTY ARRANGEMENTS ARE GRANTED BY 1979, CONSTRUCTION OF THE HEAVY OIL COMPLEX COULD BEGIN IN 1981 WITH PRODUCTION SCHEDULED FOR 1985. IMPERIAL IS REQUESTING WORLD PRICE FOR COLD LAKE SYNTHETIC CRUDE AND PROVINCIAL
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ROYALTY AND FEDERAL TAX CONCESSIONS TO OFFSET THE DOLS 3-5 BARREL COST OF UPGRADING THE BITUMEN INTO A USEABLE LIGHT OIL.

2. THIS PROJECT WOULD BE CANADA'S FIRST LARGE SCALE IN-SITU EFFORT TO RECOVER HEAVY OIL COMMERCIALY FROM AREAS TOO DEEP FOR SURFACE MINING. THE COMPLEX WOULD ADD AN ESTIMATED ONE

BILLION BARRELS OF OIL TO CANADA'S OIL SUPPLY OVER A 25 YEAR PERIOD. IMPERIAL OFFICIALS HAVE INDICATED THAT THEY WOULD PREFER TO UNDERTAKE THE PROJECT ON THEIR OWN BUT THE DOOR IS BEING LEFT OPEN FOR ALBERTA GOVERNMENT PARTICIPATION, MOST LIKELY AN EQUITY INVESTMENT BY THE ALBERTA ENERGY COMPANY. THE PROVINCIAL GOVERNMENT HAS PUBLICLY STATED THAT ALBERTANS SHOULD HAVE AN OPPORTUNITY TO INVEST IN ANY MAJOR COLD LAKE DEVELOPMENT.

3. COMMENT: GIVEN THE LIMITED MARKET FOR ASPHALT, GOC RESTRICTIONS ON PETROLEUM EXPORTS TO THE U.S., AND THE INABILITY OF EASTERN REFINERIES TO HANDLE BITUMEN, ANY SIGNIFICANT EXPANSION OF HEAVY OIL PRODUCTION REQUIRES THE CONSTRUCTION OF AN UPGRADING FACILITY. THERE ARE SEVERAL PROPOSALS FOR SUCH A PROJECT UNDER REVIEW OR IN PREPARATION: WKA) THE IMPERIAL PROJECT DESCRIBED ABOVE ; (B) A HUSKY OIL PROPOSAL FOR A HEAVY OIL PLANT AT LLOYDMINSTER; AND (C) A PACIFIC PETROLEUMS LED CONSORTIUM PLAN FOR A HEAVY OIL PROJECT AT HARDISTY, ALBERTA. ALL OF THESE UNDERTAKINGS REQUIRE TAX AND/OR ROYALTY CONCESSIONS TO BE VIABLE. SENIOR ALBERTA ENERGY OFFICIALS ARE AWARE THAT ROYALTY AND TAX REDUCTIONS ARE NEEDED IN ORDER TO GET A MAJOR HEAVY OIL UNDERTAKING OFF THE GROUND, AND DIFFICULT NEGOTIATIONS WITH THE FEDERAL GOVERNMENT CAN BE ANTICIPATED OVER THIS ISSUE. ANOTHER FACTOR COMPLICATING INDUSTRY PLANS FOR HEAVY OIL DEVELOPMENT IS THE SASKATCHEWAN GOVERNMENT'S INSISTENCE

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THAT ONE OR MORE HEAVY OIL UPGRADING PLANTS BE LOCATED WITHIN THAT PROVINCE'S JURISDICTION.

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